

The Crop Hail Advisory Task Force Report/Department Conclusions Summary

Commissioner Poolman would like to extend his sincere appreciation to those members of the Crop Hail Advisory Task Force who volunteered their valuable time, energy, and expertise to review the departments Crop Hail Filing program. The report reflects the many issues the task force addressed and the important recommendations made.

The Commissioner and staff met to review the report and its recommendations. Many of the task force recommendations will be adopted by the department.

This document sets forth in brief summary form the decision/recommendation of the task force and the department determination.

The order of the items follows the format set out in the report.

FORMS (Coverage) Issues

FORMS – High Priority

1. Automatic carryover coverage –

Task Force: The consensus by the task force was that the provision should be eliminated.

Department: No action at this time. Companies are responsible for this coverage and have it in their power to make revisions to it or eliminate it all together.

FORMS – Medium Priority

None

FORMS – Low Priority

1. Effective time of the policy-

Task Force: The consensus by the task force was to leave the law the as it is.

Department: No action necessary. Concur with the task force.

2. Sales closing date –

Task Force: The consensus of the task force is not to recommend mandating a sales closing date.

Department: No action necessary. Concur with the task force.

3. Over- insurance –

Task Force: The consensus of the task force was not to pursue any action in this area but to continue to let companies manage the issue.

Department: No action necessary. Concur with the task force.

RATES (Filing) Issues

RATES – High Priority

1. NCIS loss cost formula use of most recent data –

Task Force: The consensus was the method for calculating loss costs is the best available predictor of future losses. No modification is recommended.

Department: No action necessary. Concur with the task force.

2. NCIS loss cost formula doe not cross state or provincial borders-

Task Force: The consensus was that the Commissioner should request NCIS conduct a study of the mechanics, logistics and impact to loss costs of converting the system to be able to do cross border analysis.

Department: Concur with task force. The department will make a formal request to NCIS to conduct a feasibility study.

3. Use of cups and caps on loss costs-

Task Force: No consensus was reached. While there were those who supported the concept to stabilize swings, there were those who felt the pure statistical approach was the best method to use.

Department: The department uses a 30% cap and cup on loss cost changes. In the interest of providing stability to individual townships that can experience significant fluctuations the department will continue to keep the cap and cup requirement in place.

4. Department requires companies use only three loss cost multiplier levels to develop rates-

Task Force: The consensus was to modify the current three tiered system. The recommendation is to go to an open system allowing companies to apply their own system to the appropriate loss costs.

Department: Concur with the task force. The rate filing program will be revised to remove the three level system and to permit companies to file in a manner that coincides with their internal system subject to documentation.

5. Department currently permits cash discount/surcharge of up to 5%-

Task Force: The consensus was to keep the rule permitting the cash discount/surcharge but recommend a cap of 2% due to the current financial climate but permit higher discounts if the company can justify its use.

Department: Concur with the task force on continuing to permit the cash discount/surcharge. However, do not concur with changing the present cap from 5% to 2%. Companies currently have the ability to file reductions to the discount.

6. Department currently requires the most recent five years of expense data from a company to support a rate change-

Task Force: The consensus was the companies should not be required to use the most recent year expense but have the option to do so if the could, and that the requirement for five years of data be changed to three years.

Department: Concur with the task force. The rate filing program will be revised to require only 3years historical data and to allow companies the option of using the most recent year data.

7. Department does not accept a company filing that includes a fixed expense factor in calculating a rate-

Task Force: The consensus was the Department should permit the use of fixed expenses subject to appropriate actuarial justification.

Department: Concur with the task force. The rate filing program will be revised to permit companies to file a fixed expense component (in addition to the variable component) subject to actuarial justification.

8. Expected loss ratio (ELR) caps/cups-

Task Force: The consensus was that there should be cap on the maximum ELR that can be used at the high range of loss costs and it should be 70.

Department: The effect of a maximum ELR is to set a floor for how low rates can go. While there is some sentiment for this approach it is felt that a firm and accurate actuarial analysis of any proposal should prevent companies from attempting to low ball the market place but at the same time allow for competition in the market. Accordingly the department does not plan to set a maximum ELR.

9. Department has accepted company filings with a projected zero profit load-

Task Force: A consensus could not be reached. Opinion on both sides was strongly held.

Department: The department has accepted filings with a zero profit load in the past. From the actuarial standpoint it is felt possible to justify a zero profit load. Further, the department does not feel it appropriate to arbitrarily set a mandated load factor. Accordingly, companies will be permitted to file based on a zero load.

10. Department holds the companies to use of the NCIS rounding rule-

Task Force: The consensus was companies should be able to set their own rule for the use of rounding.

Department: Concur with the task force. The rate filing program will be revised to allow companies to file their own rounding rules.

RATES – Medium Priority

1. NCIS loss cost formula use of 25 townships-

Task Force: The consensus was to keep the current 25 township formula with it present weighting factors but to recommend that the Commissioner request NCIS conduct a study of expanding the formula to 49 townships and determining what the best weighting method to use with the expanded area.

Department: Concur with the task force. The department will make a formal request to NCIS requesting them to do a feasibility and actuarial study of the impact of changing to a 49 township formula.

2. Department currently permits a discount for internet sales-

Task Force: Consensus was not to make a recommendation in lieu of the fact that the Department legally must consider requests of this nature, but to note that the Department should define and set parameters for justifying any requests.

Department: Concur with the task force. In conjunction with the other revisions being made to the rate filing program the department will address the internet sales discount issue. In the past it has been treated as discount to be taken off the full rate, however, under the new filing program it will be treated as an expense component (similar to another commission level) based upon marketing type rather than a discount to the full rate.

3. Companion Plan rates are factored from other base rates and in some cases are thought to be inadequate for the risk-

Task Force: The consensus was to recommend the Commissioner request NCIS conduct a study on the appropriateness of Companion Plan rates.

Department: Concur with the task force. The department will make a formal request to NCIS to conduct an actuarial assessment to validate the adequacy of Companion Plan rates as they are currently determined.

RATES- Low Priority

1. Traditionally the premium for the season's crop policy is fall billed (October)-

Task Force: The consensus was the task force felt that inclusion in this document would indicate there is a feeling that this system should be changed and that companies are encouraged to seek alternative payment systems to reflect current farming practices.

Department: No action necessary. The issue is acknowledged but the ability to change billing methods currently exists and resides with each company.